APPROVED 10/20/09

Tier I to LAGERS Sub-Committee

October 6, 2009 – 6:00 p.m.
4th Floor Conference Room, Busch Municipal Building

PRESENT: Peggy Kubicek – Chair, Ken Homan, Sheila Maerz, Shawn Martin, Jim McCullough, Chad Munsey, Nancy Yendes

CITY STAFF: Greg Burris, Kathy Hardt

GUESTS: Jerry Fenstermaker

ABSENT: John Marion, Danny Hyde

Minutes from the September 29 meeting were not distributed, but will be included at next meeting for approval.

Peggy Kubicek introduced Mr. Bob Wilson and Mr. Keith Hughes from LAGERS. Ms. Kubicek encouraged the group to read through the LAGERS brochures that were distributed and continue reviewing the LAGERS website for information.

Mr. Hughes stated the financial report included with the LAGERS information is a year old. A new financial report is being printed now and will be released in approximately 2 weeks.

Mr. Hughes presented a Power Point (document attached), and included in discussions questions asked in advance from the Sub-Committee members.

Will the Tier I migration depend upon 100% participation? LAGERS only requires all current and future employees covered in the plan, current Tier I and Tier II.

What happens with employees who opt out of the migration? ALL employees shall participate, no individual opt out is being discussed.

How would current employees get enough credit for past service to become vested in LAGERS without having to purchase prior credit? The process LAGERS has previously handled for other companies that have merged existing plans is they give 100% of their previous city full-time employment for vesting service only.

Are current retirees eligible for LAGERS participation? Yes, current Springfield Police Fire retirees that work in a full-time position are eligible (retired, but then came back to work in department – service going forward - in LAGERS). To clarify, there is a one year continuous service requirement for LAGERS retirees. Employees currently retired from the Springfield Police/Fire plan would be required to meet the normal vesting requirement – 5 years.

Will military leave interrupt that continuous service requirement? No, not if you were called into duty. LAGERS will continue service during military leave.

Can LAGERS participants buy out years of military time? LAGERS participants may buy out four years of military time, prior to going to work for the employer.

Mr. Hughes stated if you have other <u>Missouri</u> <u>public</u> employment, for which no benefit is payable, you could purchase that time.

Can LAGERS arrange payment for the unfunded liability over 30 or more years using the same controls/procedures (withholding tax revenues) they employ with other municipalities? (25%, 50%, 100% of prior service?) LAGERS would not accept your prior police fire service that is currently rendered for benefit purposes due to impairment of benefits - not apples for apples comparison. This would be for future service only. Instead LAGERS is suggesting that prior service be given as vesting service only, due to potential and inherent benefits. (Example: If one accrued 30 years at 2.8%, and if it suggests somehow that one gets 2.5%, that is a lesser benefit. - Looking at just the face value.) Cost would be amortized over next 30 years for the vesting services only.

What arrangement between LAGERS and Tier I participants that will likely result equal benefits with equal or lesser costs to the City and participants? LAGERS would calculate a benefit amount for service rendered from the transition date forward. (Ex: If July 1, 2010, and an additional year is worked, there would be one year of service.) Springfield's pension plan would then set any benefits due under the existing retirement plan after taking the LAGERS payment into account. LAGERS would certify to City what the amount is to be payable to each person – LAGERS would provide comparative information, but considers this decision to be decided by the City. The person would actually get two benefit checks – one from LAGERS and one from Pension Plan. Same process can work for Tier II employees.

What arrangement between LAGERS and Tier I participants that will likely result in equal benefits with equal or lesser costs to the city and participants? LAGERS provides no guarantees on the cost going forward.

Jerry Fenstermaker asked what the enabling mechanism would look like for the City. If ordinance, what would it say? Mr. Hughes suggested the basic dynamics could be decided between LAGERS, legal counsel, staff, and pension board. Mr. Hughes believes this is more of a city/employee issue and another document may need to be drafted to provide an assurance to the employee, which could be a new ordinance.

How many other entities or groups participate in the L-11 plan? Mr. Hughes stated there are three. LAGERS have very few employers that have their employees outside of Social Security. Most have their employees in Social Security. We can actually have a different benefit program for Social Security coverage and non-Social Security coverage. However, as the statutes are written, the final average salary, employee contribution, and retirement eligibility options have to be uniform for all employees of the city.

A question came up regarding Return of Contribution. Mr. Hughes stated under the current scenario, there are no employee contributions, so there is nothing to be returned. Should the City decide to go contributatory, and there was an account balance, there would be no return of contributions at retirement under LAGERS. Those funds are used to fund the future pension benefits that are paid. No return of contributions.

Would the contribution rate be level or would it vary from employee to employee? (Newer employees would receive the least benefit from the existing plan and the highest benefit from LAGERS – would they contribute more throughout their career to the existing plan than the older employee who will soon retire? Will this affect retention?) All LAGERS benefits are uniform for all employees and departments and are based on total payroll of department. (Example: All police would be grouped together and one rate would be created for all police employees that are at the 2.5% benefit plan. A second rate would be created for fire employees.) Contributions are calculated to be a level percent of payroll – and all assumptions are met for future periods to provide <u>generational equity.</u>

What would be an equitable rate – some type of variable rate? LAGERS does not have any variance in rates.

If our Tier I employees move to the L-11 hybrid plan, where would our funding level be? LAGERS funding plan would start at 0% funding. LAGERS would move towards full funding over a 30-year period.

Final Average Salary – LAGERS calculates average of the highest 36 consecutive months of service credit. Mr. Hughes stated there is one exception to the rule. In the transition, if a 30-year service employee starts with LAGERS on July 1, 2010, and retires on January 1, 2011, LAGERS would use a simple average of the six months of wages that was reported to LAGERS. LAGERS will not go back and request salaries for proceeding 30years.

What happens to spousal/disability rights with the migration to LAGERS? Mr. Hughes believes there would be separate spousal elections here with each plan. Each active member has options to choose from. If a member does not make an election, the Life Option will be the default.

What are the immediate costs of Tier I migration to LAGERS? (and Tier II). Police rate, based upon the evaluation done July 10, 2009, would be 18.3% of pay. That would include giving all prior service for vesting purposes and all future services for benefit purposes for current and future hires. Fire employee rate would be 21.8% of pay. It is uniform for all employees throughout the department.

What funding requirements would a transition to LAGERS generate for the city and /or employees? The City of Springfield would just pay the required contribution discussed earlier. There are no required contributions by the employees.

How do we determine 80% funding with Tier I plus LAGERS plus Retirees? LAGERS employers are required to fund the plan at the actuarial-required contribution rate. LAGERS have authority to submit to the Department of Revenue a request for sales tax money to collect. The rate to the employer is capped at 1% increase per year, and the City will not be required to increase the LAGERS payments more than 1% increase per year as well.

In extremely low markets, is there an adverse long-term effect from the inability of LAGERS to increase the contribution rate by more than 1% per year? LAGERS does not plan to attempt to change the cap. During severe recession, employers do not want to pay more into LAGERS. It is not a budget priority. Therefore, LAGERS does not expect that to happen. Mr. Hughes also noted LAGERS will always be willing to accept contributions to cover any unfunded liability that the employer has at any time. Mr. Fenstermaker asked what type of safety net does LAGERS have to protect them from low returns. Mr. Hughes stated the backstop is the higher contribution rates to the employer in future years. LAGERS have much larger assets to work with in volatile markets.

What happens to spousal/disability rights with the migration to LAGERS? LAGERS would determine disability rights under LAGERS statutes regardless of rights from other plans.

What happens if the criteria for "disabled" status differ between Tier I and LAGERS plans? LAGERS would comply with Chapter 70, assuming benefit is payable under LAGERS.

The question was asked - if employee is disabled under Tier I but not under LAGERS, then the employee leaves service drawing with Tier I disability pension, but not LAGERS disability pension, what happens to that investment that the City has made on behalf of that employee? If employee was not in the disability criteria (LAGERS defines "disability that keeps employee from doing the job they were hired to do"). In that scenario, employee would wait and then draw a LAGERS benefit upon taking a normal retirement at the age of 55. For employee not vested in LAGERS, but has a non-duty disability, there is not a payout benefit to employee. Money would remain in employers account.

How does LAGERS deal with pre-existing injuries? LAGERS takes employees as they are presented. If employee is healthy enough to be working at start of LAGERS, then they become part of LAGERS. LAGERS will accept worker's comp employees as well.

What happens with the income limitations provision? LAGERS does not have an income limitation on disabilities.

What happens with re-called employees who work and then go back out on a new disability? The employee would have to go through the disability application process again. LAGERS does require a doctors decision stating that the employee remains disabled for each year of the first five years of disability. After first five years, statement is required once every three years. The initial disability decision is made by the three doctors. After that, the decision statement can be confirmed by one doctor. Choice of doctor is that of the employee.

A Tier I employee who retires is ineligible for a cost of living increase until age 56; would the employee retiring prior to age 56 under the L-11 be eligible for the COLA under the L-11 plan? All the retirees of LAGERS retired one full year from October 1 are eligible for post retirement adjustment.

Is it possible for LAGERS to totally replicate and take over the Springfield Tier I plan and do so without any disruption to the employees and retirees (ie: can LAGERS create a plan beyond L-11?) LAGERS absolutely has no intentions of taking over the existing Police Fire pension plan. That has not been a discussion within LAGERS.

Tier I employees can retire with 25 year of service at any age. If the Tier I employee moves to the L-11 plan, will the employee continue to qualify for leaving with 25 years regardless of age? LAGERS plan states full benefits are available at age 55 and5 years of service.

What are the options for purchasing prior credit? Tier I or Tier II employees have same rules. Section 105.691 of the Missouri Statutes is referenced. LAGERS would have an agreement with Springfield Police Fire pension plan – outlining how these monies can flow either way – but individually, an employee could request a transfer under Section 105.691 after becoming vested in LAGERS. Upon transferring the assets to LAGERS, the individual then would forfeit the benefit from the Police Fire pension plan. Employee giving up assets will mean writing off the liability. This is done on an individual basis. An employee cannot buy more service from LAGERS than he has rendered for the City.

What is the normal amortization for purchase of past service? LAGERS will not accept the police or fire service for benefit purposes.

What actions by LAGERS have led to its good 10-year performance? Well-diversified and they focus on the long-term. Cash flow has been sufficient. No cash flow issues.

Are these factors likely to stay in place for the next 10 years? LAGERS will continue in same direction. Will continue with a diversified portfolio.

What caused the investment cost to the LAGERS plan to increase this past year? LAGERS made a movement to performance fee with outstanding performance for some managers

What are likely future trends with these costs? Any time you have performance fees, the fees are going to be more volatile. But they are supported by managers that add value to a portfolio.

Are other public systems trying to transition existing participants into LAGERS? Yes. In 2009, LAGERS has already added 19 new employers to the system. A lot of them were employees that had defined contribution plans.

Has LAGERS ever absorbed any high risk funds? Yes, an example would be City of St.Joseph Fire Plan. It was under 10% funded.

What are the most common features? Two of the most prominent features include:

1) You pay for prior service out of the existing plan. You pay for future service out of LAGERS.
2) 100% vesting for all your prior service.

What happened to benefits that exceeded what LAGERS provides? The City would pay any benefits that exceeded the LAGERS.

The largest risk would be the assessment of benefits due under the existing Police Fire Pension plan. Carrying out the strategy to insure there would be no impairment of benefits.

What is the mechanism to negotiate migration from Tier I to LAGERS? LAGERS only requires an approved city ordinance. First step would be to grasp the entire concept and if City agrees, talk to all parties involved, then LAGERS would work with City on documents that need to be used.

If several employees were to retire within the first year of moving to LAGERS, how would LAGERS absorb this loss? LAGERS calculates the present value to future benefits, take out of City's account and move into benefit reserve fund. Benefit reserve fund is the fund that pays all future benefits on behalf of all retirees of LAGERS. Those individuals are no longer a risk to the City, and they are now a liability to LAGERS. The positive is that at no point will LAGERS come back to City for additional funds for a prolonged life. The negative is that the department that individual comes from will have negative assets.

Mr. Hughes stated if anyone had any questions or concerns, they may contact him at khughes@molagers.org.

Ms.Kubicek thanked Mr. Hughes for his presentation.

The Sub-Committee discussed next meeting agenda and meeting was adjourned at 8:20.

Missouri Local Government Employees Retirement System

Keith Hughes, CEBS, CGFM
Assistant Executive Secretary / Comptroller

Retirement Eligibility

Vesting = 5 years of Service Credit

Normal Retirement Age

General Employees	Age 60
Police Officers & Fire Fighters	Age 55

Early Retirement Age

Benefit Reduced ½ of 1% for every month member is younger than normal retirement age.

General Employees	Age 55
Police Officers & Fire Fighters	Age 50

How all Members' Benefits are Calculated . . .

Benefit Factor

X

Final Average Salary

X

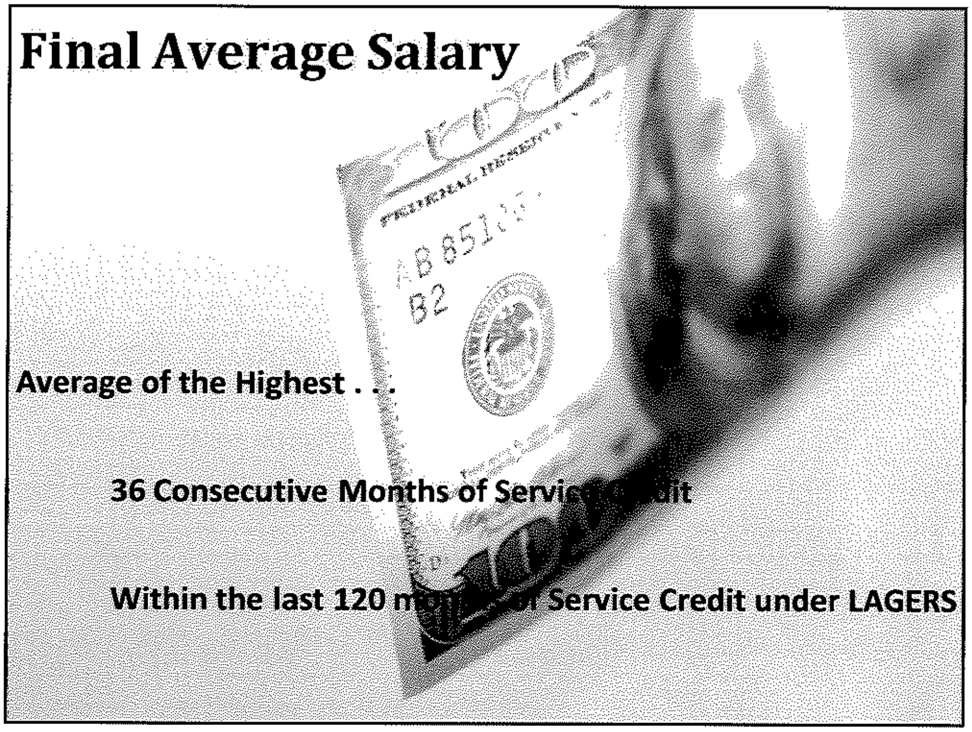
Years of Service Credit

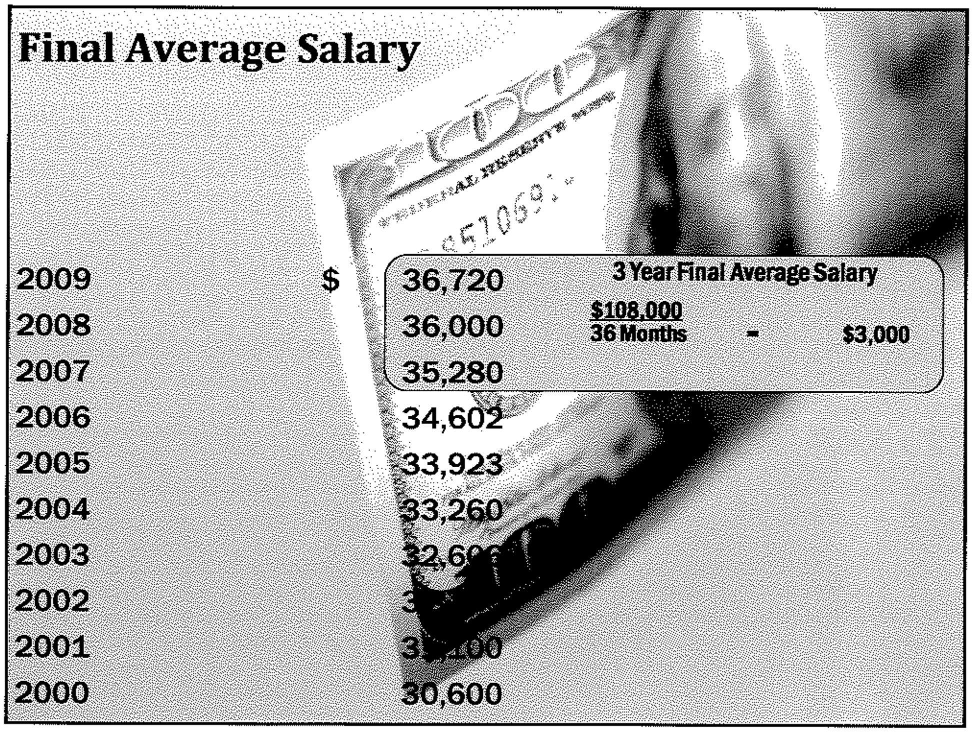
=

Monthly Benefit for Life

City of Springfield LAGERS Benefits

Benefit Program:	L-6 (2.00%), L-11 (2.5%)
Final Average Salary:	36 Month
Employee Contributions:	Not Required
Retirement Eligibility:	Regular / No Rule of 80


Final Average Salary
Average of the Highest . . .
36 Consecutive Months of Service Credit
Within the last 120 months of Service Credit under LAGERS


Final Average Salary
2009 $ 36,720
2008 36,000
2007 35,280
2006 34,602
2005 33,923
2004 33,260
2003
2002
2001
2000 30,600
3 Year Final Average Salary
$108,000 / 36 Months = $3,000

Benefit Program Examples

Assume $2,500 FAS & 25 years service credit

L-1	1.00% x $2,500 x 25 = $ 625.00 per month
L-3	1.25% x $2,500 x 25 = $ 781.25 per month
L-7	1.50% x $2,500 x 25 = $ 937.50 per month
L-12	1.75% x $2,500 x 25 = $1,093.75 per month
L-6	2.00% x $2,500 x 25 = $1,250.00 per month

Benefit Program Examples

Assume $2,500 FAS & 25 years service credit.

LT-4(65)	1.00% x $2500 x 25 = $ 625.00 Per month for Life
PLUS	1.00% x $2500 x 25 = $ 625.00 Per month to Age 65
LT-5(65)	1.25% x $2500 x 25 = $ 781.25 Per month for Life
PLUS	0.75% x $2500 x 25 = $ 468.75 Per Month to Age 65
LT-8 (65)	1.50% x $2500 x 25 = $ 937.50 Per month for Life
PLUS	0.50% x $2500 x 25 = $ 312.50 Per month to Age 65
LT-14 (65)	1.75% x $2500 x 25 = $1,093.75 Per month for Life
PLUS	0.25% x $2500 x 25 = $ 156.25 Per month to Age 65

Benefit Program Examples

Assume $3,500 FAS & 25 years service credit

L-6	2.00% x $3,500 x 25 = $1,750.00 per month
L-11	2.50% x $3,500 x 25 = $2187.50 per month

Disability & Survivor Benefits

- <u>Non-Duty</u>
  - Must be Vested
  - Benefit based on Service Credit to-date
- <u>Duty Related</u>
  - Vesting is Immediate
  - Service Credit extended to age 60
- RSMo 87.006 – Certain Diseases assumed incurred in Line of Duty
  - Firemen that develop Heart or Lung Diseases
  - Passed a physical and within 5 years of Condition

* Temporary benefit (LT) not payable to disability or deferred retirements.

Post Retirement Adjustment

Retirees are eligible for an annual Post Retirement Adjustment

1. Payable October 1st
2. Contingent on CPI and financial experience of LAGERS
3. Given at the discretion of the board, Can not exceed 4%

LAGERS Solutions

1) New Hires Only

2) Current and Future Employees
   - Prospective Service Only